

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION
FISCAL NOTE

L.R. No.: 4087-01
Bill No.: SB 539
Subject: Motor Fuel; Roads and Highways; Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Transportation; Department of Transportation
Type: Original
Date: January 15, 2020

Bill Summary: This proposal increases taxes on motor fuels.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	(Greater than \$48,157)	(Greater than \$48,526)	(Greater than \$51,128)
Total Estimated Net Effect on General Revenue	(Greater than \$48,157)	(Greater than \$48,526)	(Greater than \$51,128)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Gaming Commission Fund (0286)	(\$4,127)	(\$4,231)	(\$6,505)
Highway Fund (0644)	(\$33,019)	(\$33,844)	(\$52,036)
Motor Fuel Tax Fund (0673)*	\$0	\$0	\$0
State Road Fund (0320)	\$94,805,830	\$107,181,877	\$119,805,445
Total Estimated Net Effect on <u>Other</u> State Funds	\$94,768,684	\$107,143,802	\$119,746,904

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 12 pages.

*Revenues In and Transfers Out net to \$0.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	Less than \$35,065,170	Less than \$39,642,612	Less than \$44,311,603

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue (DOR)** assume the following regarding this proposal:

Revenue Impact

The Department of Revenue notes this proposal would increase from 17 cents per gallon to 19 cents per gallon the tax on gasoline. It would also increase from 17 cents to 23 cents the tax on diesel fuel. This proposal has an emergency clause. Since it is unclear on what date this proposal would become effective, for simplicity of the fiscal note, DOR used July 1, 2020 as the start date of the proposal.

This proposal goes on to state that one year after the start date the price of the tax would increase by the CPI. DOR used a 2% inflation rate for each year. Additionally, the other fuels (Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG)) would also inflate after one year. DOR notes that these fuels are currently scheduled to increase per statute. DOR assumes these will continue with their scheduled increases.

DOR used the following data to calculate the tax rate:

Net Amount	# of Gallons Sold in FY 2019	Current Tax	FY 2019 Taxes	FY 2018 Taxes
Gallons of gas taxed	3,081,595,750	\$0.17	\$523,871,277	\$532,728,002
Gallons of diesel taxed	1,137,318,093	\$0.17	\$193,344,076	\$197,187,738
CNG & propane	2,577,692	\$0.05	\$128,885	\$139,048
LNG	2,768,400	\$0.05	\$138,420	\$139,133
Gas/diesel	4,218,913,843		\$717,215,353	\$729,915,740
CNG/LNG	5,346,092		\$267,305	\$278,181

ASSUMPTION (continued)

Below is the estimate of the tax increase based on a 2% annual inflation rate (we note the CNG/LNG scheduled rate vs the proposed rate):

	Gas	Diesel	CNG/LNG Scheduled	Proposed
Start 7/1/2020	\$0.19	\$0.23	\$0.11	\$0.11
7/1/2020-6/30/2021	\$0.19	\$0.23	\$0.11	\$0.11
7/1/2021-6/30/2022	\$0.1938	\$0.2346	\$0.11	\$0.1122
7/1/2022-6/30/2023	\$0.1977	\$0.2393	\$0.11	\$0.1144
7/1/2023-6/30/2024	\$0.2016	\$0.2441	\$0.11	\$0.1167
7/1/2024-12/31/2024	\$0.2057	\$0.2490	\$0.11	\$0.1191
1/1/2025-6/30/2025	\$0.2057	\$0.2490	\$0.17	\$0.17
7/1/2025-6/30/2026	\$0.2098	\$0.2539	\$0.17	\$0.1734
7/1/2026-6/30/2027	\$0.2140	\$0.2590	\$0.17	\$0.1769

The CNG/LNG fuel is statutorily already scheduled to increase starting January 1, 2024. Therefore, for six months of FY 2024 (July - December) the rate would be \$0.1191 and then would switch to \$0.17 per gallon on January 1, 2024 (six months).

Increase in revenue:

(Gas: 3,081,595,750 x \$0.02 = \$61,631,915 & Diesel: 1,137,318,093 x \$0.06 = \$68,239,086)

	Gas	Diesel	CNG	LNG	Total
7/1/20-6/30/21	61,631,915	68,239,086	0	0	129,871,001
7/1/21-6/30/22	73,341,979	73,470,749	5,671	6,090	146,824,489
7/1/2-6/30/23	85,286,244	78,807,045	11,455	12,303	164,117,047
7/1/23-6/30/24	97,469,394	84,250,068	17,355	18,639	181,755,456
7/1/24-12/31/24	54,948,104	44,900,975	0	0	99,849,079
1/1/25-6/30/25	122,647,511	95,464,871	8,764	9,413	218,130,559
7/1/26-6/30/27	135,590,213	101,241,050	17,704	19,013	236,867,980

ASSUMPTION (continued)

DOR notes that all motor fuel money goes into the Motor Fuel Tax Fund (0673) and then is distributed 15% to Cities, 12% to Counties and the State Road Fund (0320) retains the remaining 73%. This calculates to an increase in the motor fuel tax:

	State	Cities	Counties	Total
7/1/20-6/30/21	\$94,805,830	\$19,480,650	\$15,584,520	\$129,871,000
7/1/21-6/30/22	\$107,181,877	\$22,023,673	\$17,618,939	\$146,824,489
7/1/22-6/30/23	\$119,805,445	\$24,617,557	\$19,694,046	\$164,117,048
7/1/23-6/30/24	\$132,681,483	\$27,263,319	\$21,810,655	\$181,755,457
7/1/24-12/31/24	\$72,907,522	\$14,980,998	\$11,984,798	\$99,873,318
1/1/25-6/30/25	\$72,889,828	\$14,977,362	\$11,981,890	\$99,849,080
7/1/25-6/30/26	\$159,235,308	\$32,719,584	\$26,175,667	\$218,130,559
7/1/26-6/30/27	\$172,913,625	\$35,530,197	\$28,424,158	\$236,867,980

Administrative Impact

The Department anticipates this legislation will result in a significant enough of an increase to require the below FTE.

- 1 FTE (Revenue Processing Tech I (@ \$24,360 annually) for the increased review of the motor fuel refund claims
- System changes for this legislation will be significant because currently our system is not able to handle a 4-digit motor fuel rate. At the time of the completion of this fiscal note, that estimate has not been provided by our vendor that maintains the current tax system.

Oversight does not have any information to the contrary in regards to DOR’s assumptions; therefore, Oversight will reflect DOR’s costs for one FTE on the fiscal note, in addition to an “Unknown” cost for system changes.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the following regarding this proposal:

Section 142.803.1, RSMo, would increase the gasoline tax by \$0.02 to a total of \$0.19 per gallon. It would also increase the diesel fuel tax by \$0.06 to a total of \$0.23 per gallon. In addition, this proposal would levy a \$0.17 tax on all motor fuel other than gasoline and diesel. Section B contains an emergency clause for Section 142.803, RSMo. For the purpose of this fiscal note, B&P will assume that Section 142.803, RSMo, would go into effect on July 1, 2020.

B&P notes that currently the other alternative fuels in use are compressed natural gas (CNG), liquefied natural gas (LNG), propane gas, and aviation fuel. B&P further notes that paragraphs (5) through (8) separate the currently used alternative fuels and indicates the tax rates that apply to each. Under current law CNG, LNG, and propane taxes are scheduled to increase from \$0.05 to \$0.11 beginning calendar year 2020 and then to \$0.17 beginning calendar year 2025. For the purpose of this fiscal note, B&P assumes that the tax rates specified in paragraphs (5) through (8) would apply to the listed alternative fuels and only other unidentified alternative fuels would fall under the \$0.17 per gallon tax rate listed under paragraph (1). B&P notes that under this proposal, taxpayers could still purchase an alternative fuel decal rather than pay the fuel tax at the pump.

Subsection 142.803.3, RSMo, would increase each fuel tax by the rate of inflation over the previous year. Using July 1, 2020, as the effective date for this proposal (due to the emergency clause). B&P notes that the inflation adjustment could consider the Consumer Price Index (CPI) from April (year 1) through March (year 2). The first inflation adjustment under this proposal would occur in July 2021. This adjustment would look at the change in the CPI from April 2019 - March 2020 versus April 2020 through March 2021. B&P notes the inflation adjustment to the fuel taxes could be either positive or negative depending on the inflation rate. The proposal does not limit the adjustments to only positive inflation years. For the purpose of this fiscal note, B&P will assume that inflation averages 2% per year over the duration of this fiscal note response.

ASSUMPTION (continued)

Table 1: Proposed Motor Fuel Tax Rates

Fiscal Year	Tax Year	Gas/Diesel Current Law	Gas Proposed*	Diesel Proposed*	CNG/LNG Current Law	CNG/LNG Proposed*
FY 2021	7/1/20- 6/30/21	\$0.17	\$0.19	\$0.23	\$0.11	\$0.1100
FY 2022	7/1/21- 6/30/22	\$0.17	\$0.1938	\$0.2346	\$0.11	\$0.1122
FY 2023	7/1/22- 6/30/23	\$0.17	\$0.1977	\$0.2393	\$0.11	\$0.1144
FY 2024	7/1/23- 6/30/24	\$0.17	\$0.2017	\$0.2441	\$0.11	\$0.1167
FY 2025	7/1/24- 12/31/24	\$0.17	\$0.2057	\$0.2490	\$0.11	\$0.1190
FY 2025	1/1/25- 6/30/25	\$0.17	\$0.2057	\$0.2490	\$0.17	\$0.1700
FY 2026	7/1/25- 6/30/26	\$0.17	\$0.2098	\$0.2540	\$0.17	\$0.1734
FY 2027	7/1/26- 6/30/27	\$0.17	\$0.2140	\$0.2591	\$0.17	\$0.1769

As noted above, under current law the fuel tax for CNG and LNG alternative fuels are scheduled to increase from \$0.11 to \$0.17 on January 1, 2025. For the purpose of this fiscal note B&P assumes that the \$0.11 tax would be adjusted for inflation each year from July 2021 through December 2024. On January 1, 2025 the tax would then be adjusted to \$0.17. On July 1, 2025 the tax rates on CNG and LNG would resume inflation adjustments. This means that the tax rate for CNG and LNG would be changed three times over the course of one year (July 2024 - inflation, January 2025 - current law rate change, and July 2025 - inflation).

Based on the tax rates estimated above, B&P estimates that this proposal will increase TSR and the State Road Fund by \$90.4M in FY 2021. By FY 2026, this proposal will increase TSR and the State Road Fund by \$151.9M. This proposal will also increase local road funds by \$39.5M in FY 2021. By FY 2026 local funds could be increased by \$66.3M. Table 2 shows the estimated revenue by fiscal year.

ASSUMPTION (continued)

Table 2: Motor Fuel Tax Collections

Fiscal Year	Motor Fuel Tax Fund	Local Funds	Total
2021	\$90,416,519	\$39,454,481	\$129,871,000
2022	\$102,219,581	\$44,604,908	\$146,824,489
2023	\$114,316,364	\$49,883,504	\$164,199,868
2024	\$126,707,242	\$55,290,433	\$181,997,675
2025	\$139,160,551	\$60,724,604	\$199,885,155
2026	\$151,911,676	\$66,288,731	\$218,200,407
2027	\$164,973,644	\$71,988,499	\$236,962,143

Oversight does not have any information to the contrary in regards to B&P's assumptions; however, Oversight notes DOR's and B&P's estimates slightly differ. For purposes of this fiscal note, Oversight will use DOR's numbers.

Officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** assume the following regarding this proposal:

The following increase in fuel costs to the Patrol are based on the Patrol's FY 2019 fuel usage of 2,063,680 gallons.

Year one - (\$0.02 per gallon increase) - \$41,274 additional expenditure (80% paid with Highway Funds, 10% each paid with Gaming and General Revenue funds).

Years two and thereafter are based on an average of the Consumer Price Index. Based on the average CPI for past 3 years (for the year 2016 the percent was 2.1%, 2017 was 2.1% and 2018 was 1.9% increase), the Patrol assumes an average CPI of 2.0% a year.

Therefore, the gas tax in FY 2021 will be 19 cents a gallon (as stated in the legislation), which is a 2 cent increase. FY 2022 will remain 19 cents, as a 2% CPI increase would only be 1/3 of a cent. FY 2023 will be 20 cents, as another 2% CPI increase would now round it up to the next penny.

ASSUMPTION (continued)

Because of the changing formula, going from 2 cents in the first year to the CPI in the years after, the impact is shown on 3 different lines per fund.

Oversight does not have any information to the contrary in regards to MHP's assumptions; therefore, Oversight will reflect MHP's costs on the fiscal note.

Oversight assumes other state agencies (and local political subdivisions) would also pay more in fuel taxes. Therefore, Oversight will assume an added cost to General Revenue and local political subdivisions.

Officials from the **Department of Transportation** defer to DOR for the fiscal impact of this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2021	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Cost - DOR p. 5</u>			
Personal services (1 FTE)	(\$20,300)	(\$24,604)	(\$24,850)
Fringe benefits	(\$16,342)	(\$19,691)	(\$19,773)
Expense and equipment	<u>(\$7,388)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Costs - DOR</u>	(\$44,030)	(\$44,295)	(\$44,623)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
 <u>Cost - DOR - system changes p. 5</u>	 (Unknown)	 (Unknown)	 (Unknown)
 <u>Cost - MHP & other state agencies - increased costs for fuel p. 8</u>	 <u>More than (\$4,127)</u>	 <u>More than (\$4,231)</u>	 <u>More than (\$6,505)</u>
 ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	 (Greater than <u>\$48,157</u>)	 (Greater than <u>\$48,526</u>)	 (Greater than <u>\$51,128</u>)
 Estimated Net FTE Change to the General Revenue Fund	 1 FTE	 1 FTE	 1 FTE
 GAMING COMMISSION FUND			
 <u>Cost - MHP - increased costs for fuel p. 8</u>	 <u>(\$4,127)</u>	 <u>(\$4,231)</u>	 <u>(\$6,505)</u>
 ESTIMATED NET EFFECT ON THE GAMING COMMISSION FUND	 <u>(\$4,127)</u>	 <u>(\$4,231)</u>	 <u>(\$6,505)</u>
 HIGHWAY FUND			
 <u>Cost - MHP - increased costs for fuel p. 8</u>	 <u>(\$33,019)</u>	 <u>(\$33,844)</u>	 <u>(\$52,036)</u>
 ESTIMATED NET EFFECT ON THE HIGHWAY FUND	 <u>(\$33,019)</u>	 <u>(\$33,844)</u>	 <u>(\$52,036)</u>

FISCAL IMPACT - Small Business

Small businesses could be impacted due to increased fuel prices as a result of this proposal.

FISCAL DESCRIPTION

This act increases the tax on gasoline from 17 to 19 cents per gallon, and the tax on diesel fuel from 17 to 23 cents per gallon. Additionally, beginning one year after the effective date of the act, the taxes on gasoline, diesel fuel, and motor fuels other than gasoline or diesel fuel shall be adjusted annually for inflation.

This act contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
State Tax Commission
Department of Transportation
Department of Public Safety - Missouri Highway Patrol



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